

Message Text

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ACTION STR-07

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SUBJECT: HIGHLIGHTS OF MCDONALD/DENMAN MEETING JUNE 13

1. SUMMARY: IN THREE AND ONE HALF HOUR MEETING JUNE 13, AMB. MCDONALD AND SIR ROY DENMAN DISCUSSED THE CHIEF TOPICS OF DIFFERENCES BETWEEN THE U.S. AND THE EC. THE MEETING WAS POSITIVE AND PRODUCTIVE, AND THERE WERE MANY ISSUES ON WHICH WE NARROWED OUR DIFFERENCES AND OTHERS MORE CLOSELY FOCUSED FOR POLITICAL LEVEL REVIEW. THE HIGHLIGHTS ON THESE ISSUES FOLLOW. END SUMMARY.

2. OVERALL BALANCE. MCDONALD SET THE TONE OF THE MEETING WITH A FAIRLY LENGTHY AND HEAVY COMMENTARY ON LIMITED OFFICIAL USE

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THE U.S. PERCEPTION OF THE OVERALL BALANCE OF US/EC NEGOTIATIONS. HE SAID IT WAS OBVIOUS THAT THE US BORE THE BRUNT OF MAJOR POLITICAL LIABILITIES, NOTING THE RATHER DIFFICULT UNDERTAKINGS WE FACED IN ASP, INJURY TEST, BUY AMERICA, COMMODITY ARRANGEMENTS, TO NAME A FEW. IN ORDER TO REDRESS THIS BALANCE, THE U.S. WOULD HAVE TO SEE MAJOR PROGRESS TOWARD UNDERSTANDINGS WITH

THE EC IN MANY KEY AREAS. THESE AREAS INCLUDED, AMONG OTHER THINGS, SUBSIDIES DISCIPLINES, A REDUCTION IN NON-MFN TREATMENT FROM PREFERENTIAL ARRANGEMENTS (INCLUDING QUOTAS, TARIFFS, AND LEVIES, BUT PARTICULARLY RULES OF ORIGIN, ON WHICH U.S. WANTED ACTION ON ITS 50 PERCENT REQUEST), A TIGHT GOVERNMENT PROCUREMENT CODE WITH ADEQUATE COVERAGE, AND MEANINGFUL RESPONSES TO THE U.S. AGRICULTURAL REQUESTS. MCDONALD ALSO EXPRESSED CONCERN OVER BORDER TAX ADJUSTMENTS, SAYING THAT ALTHOUGH THIS WOULD NOT BE RESOLVED IN THESE NEGOTIATIONS, IT WOULD REMAIN A TRADE DISTORTING ELEMENT ON WHICH THE U.S. WOULD CONTINUE TO SEEK REDRESS. HE SAID HE WAS CONFIDENT THAT AMB. STRAUSS WOULD BE MENTIONING MANY OF THESE SAME ISSUES WHEN HE MEETS WITH VICE PRESIDENT HAFERKAMP NEXT WEEK. DENMAN SAID THAT THE EC FACED THE INVERSE PROBLEM, AND THERE WAS POLITICAL RESISTANCE TO THE TYPES OF CHANGES THE EC HAD PUT ON THE TABLE. HE SAID THERE WAS AN INTERNAL EC FEELING THEY WERE LOSING ACROSS THE BOARD, PARTICULARLY WITH THE EROSION OF THEIR COMMON EXTERNAL TARIFF. DENMAN ALSO EXPRESSED THE HOPE THAT THE U.S., AFTER 30 YEARS, COULD SEE ITS WAY CLEAR TO EMERGE FROM PROVISIONAL APPLICATION OF THE GATT. MCDONALD RETORTED THAT THIS WOULD BE A DIFFICULT PROCESS, GIVEN THE DISTORTING EFFECTS OF THE EC'S CONTINUING PREFERENTIAL SYSTEM. COMMENT. DENMAN WAS SOMEWHAT TAKEN ABACK WITH MCDONALD'S OBVIOUS PREPARATION AND LIMITED OFFICIAL USE

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THOROUGHNESS ON ISSUES COMPOSING THE POLITICAL BALANCE. DENMAN WAS CLEARLY LEFT WITH THE IMPRESSION THAT THE U.S. DOES NOT THINK IT HAS ADEQUATE BALANCE AT THIS STAGE OF THE NEGOTIATIONS. END COMMENT.

3. TARIFFS.

A. GREATER-THAN-FORMULA CUTS. DENMAN EXPRESSED CONCERN OVER THE POSSIBLE U.S. WITHDRAWAL OF ITS GREATER-THAN-FORMULA CUTS, IMPLYING THAT THESE CUTS HAD VALUE TO THE EC. MCDONALD SAID THAT IF THERE WAS NOT A CLEAR SHOWING OF INTEREST ON THE PART OF THE EC IN THESE CUTS, THEY COULD EASILY DROP OUT PARTICULARLY IN CASES IN WHICH THE EC IS THE PRINCIPAL SUPPLIER. DENMAN AGREED THAT IN AVIATION AND "SEVERAL OTHER AREAS", THE EC WOULD BE LOOKING "ACROSS THE BOARD" ON THE INDUSTRY. HE MENTIONED THAT THE EC COULD GO TO ZERO ON AVIATION, AND THAT WE BOTH SHOULD BE PRESSING THE JAPANESE TO DO THE SAME.

B. ASP. DENMAN SAID HE LOOKED FORWARD TO THE U.S. COMPLETING ITS OFFER. MCDONALD RESPONDED THAT HE HOPED

THAT THE UNSPECIFIED ITEMS WOULD BE AVAILABLE NEXT WEEK, BUT THE IMPACT OF THESE ITEMS ON THE DEPTH-OF-CUT WOULD BE MINOR--PROBABLY UNDER 3 PERCENT, THUS NOT CHANGING SIGNIFICANTLY THE OVERALL BALANCE.

C. SECOND WITHDRAWALS. DENMAN CONFIRMED THAT HIS TEAM HAD BEEN INSTRUCTED TO DRAW UP A SECOND LIST OF POSSIBLE WITHDRAWALS. HE SAID THAT THIS SECOND LIST CLEARLY DOES NOT HAVE THE STATUS OF THE FIRST, AND THAT IT HAD BEEN APPROVED FOR USE, IF NECESSARY, AT THE END OF THE DAY TO ACHIEVE BALANCE. HE CHARACTERIZED THESE ITEMS AS "CONDITIONAL." MCDONALD EXPRESSED CONCERN OVER THE EXTENT TO WHICH THESE WITHDRAWALS MIGHT BE TAKEN, SAYING THAT IF A FIRST AND SECOND LIST WERE

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IMPLEMENTED, IT WOULD TAKE THE EC DEPTH-OF-CUT BELOW 30 PERCENT, WHICH IS WELL INTO THE UNACCEPTABLE RANGE. WITH JUDICIOUS USE OF WITHDRAWALS, RESULTS COMPARABLE TO THE KENNEDY ROUND CUTS COULD BE ACHIEVED, HE EMPHASIZED. DENMAN HOPED THAT WE WOULD BOTH CALL ON THOSE WHO CONSIDER THEMSELVES PARTICIPANTS IN THE NEGOTIATIONS TO COME FORWARD WITH THEIR OFFERS, PARTICULARLY THE "RICHER LDC'S."

4. NON-TARIFF MEASURES AND CODES

A. CUSTOMS VALUATION. U.S. AND THE EC NOTED THAT THE MAJOR ISSUES WERE MOVING TOWARD RESOLUTION AT THE NEGOTIATING TABLE. THERE APPEARED TO BE NO MAJOR

POLITICAL ISSUES, EXCEPT FOR THE QUESTION OF BALANCE--
HOW THE U.S. WOULD BE COMPENSATED FOR DROPPING ITS
VALUATION SYSTEM, PARTICULARLY ASP.

B. RULES OF ORIGIN. MCDONALD SAID THAT THE RESPONSE
THAT HE HAD HEARD THAT EC RULES OF ORIGIN WERE NON-
NEGOTIABLE IS UNACCEPTABLE TO THE U.S. IF THE EC IS
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GOING TO CONTINUE WITH A RESTRICTIVE AND ARBITRARY
SYSTEM WHICH KNOCKS OUT OUR OEM SUPPLIES IN KEY AREAS,
WE WILL HAVE TO SEEK WAYS TO REDRESS THE SITUATION IN
ALTERING OUR PRACTICES. SINCE THIS WOULD BE AN
UNFORTUNATE BACKWARD STEP, SOME SOLUTION MUST BE FOUND.

C. SAFEGUARDS. THE U.S. AND THE EC NARROWED THE
DISCUSSION TO A NUMBER OF KEY ISSUES:

- (1) PRIOR CONSULTATIONS/IMMEDIATE ACTION. THE
PARTIES AGREED THAT THIS ISSUE WOULD PROBABLY RISE TO
THE TOP POLITICAL LEVEL FOR ACTION AND FINAL DECISION.
MCDONALD DID NOT SEE HOW THE U.S. COULD AGREE TO WHAT
THE EC WANTED, EVEN AT THE END OF THE DAY. HE SAID
THE U.S. MUST HAVE SOME TIME DELAY AND PRIOR CONSULTATION
TO DISTINGUISH BETWEEN THE MFN AND THE SELECTIVE ROUTES,
SO THESE ARE CLEARLY NOT EQUAL OPTIONS'

(2) EXPORT RESTRAINTS. MCDONALD REEMPHASIZED THE
U.S. POINT OF VIEW, AND THE NEED FOR THIS ELEMENT AS A
PART OF GREATER DISCIPLINE IN THE SAFEGUARDS AREA. ANY
FORM OF SELECTIVITY WHICH IS EMBODIED IN SAFEGUARDS
MAKES IT DESIRABLE TO BRING EXPORT RESTRAINT ARRANGEMENTS
TO PUBLIC SCRUTINY AND CHALLENGE BY THIRD PARTIES
THROUGH TRANSPARENCY.

(3) POWER OF SIGNATORY COMMITTEE. THE U.S. AND
THE EC DISCUSSED A NUMBER OF GRADATIONS WITHIN THE RANGE
OF THE TWO POSITIONS ON THE ROLE OF THE COMMITTEE OF
SIGNATORIES. THE EC CONTENDED THAT THE CONGRESS WOULD
NOT ACCEPT THE CONCEPT OF PRIOR COMMITTEE APPROVAL BEFORE
THE U.S. COULD ENGAGE IN OMA'S. BOTH SIDES EXPRESSED
THE BELIEF THAT THIS WAS AN ISSUE THAT COULD PROBABLY
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BE RESOLVED ULTIMATELY AT THE NEGOTIATING LEVEL.

(4) DOMESTIC PROCEDURES. MCDONALD REEMPHASIZED THAT WE NEEDED TO MAKE SURE THERE WAS MORE EQUALITY BETWEEN WHAT THE U.S. AND OTHER COUNTRIES SHOULD GO THROUGH BEFORE TAKING SAFEGUARD ACTIONS. BOTH SIDES BELIEVED THIS ALSO WAS AN ISSUE THAT COULD BE RESOLVED IN GENEVA.

(5) PARTICIPATION/SYNDICATION AMONG NEGOTIATING PARTIES. TO MAKE SURE THERE IS BROAD CONSENSUS ON THIS SENSITIVE ISSUE, BOTH SIDES AGREED TO MAKE SURE ALL DRAFT PAPERS IN THIS AREA SHOULD RECEIVE AS WIDE AS POSSIBLE CIRCULATION, WITHOUT COMMITMENT TO SPECIFIC POSITIONS.

D. GOVERNMENT PROCUREMENT. AFTER A LENGTHY DISCUSSION ON EX ANTE AND EX POST TRANSPARENCY ISSUES, BOTH SIDES NOTED WE MOVED TOWARD A SOLUTION WHICH WOULD HELP PROVIDE THE TIGHT CODE THE U.S. SEEKS. COVERAGE APPEARS TO BE THE MAIN MAJOR PROBLEM NOW, WITH THE EC STATING THAT IT COULD OPERATE ONLY WITHIN THE STRUCTURE OF ITS MEMBER STATE SYSTEMS, ALTHOUGH IT IS OPEN TO ADDING ENTITIES OVER TIME. MCDONALD REPLIED THAT THE EC COULD EXPECT THAT ENTITIES NOT COVERED WOULD BE SUBJECT TO BUY AMERICA PROVISIONS. DENMAN ANNOUNCED THAT GERMANY AND ITALY HAD BOTH AGREED TO UP THE ANTE TO ABOUT ONE BILLION DOLLARS EACH, BRINGING THE EC COVERAGE OFFER TO THE SIX BILLION DOLLAR RANGE, NOT COUNTING DEFENSE ITEMS. MCDONALD ASKED THE FUNCTIONAL NEGOTIATORS TO CONVENE AGAIN LATER THIS WEEK TO DISCUSS SCOPE OF COVERAGE POSSIBILITIES SINCE WE ARE STILL FAR FROM AN ACCEPTABLE LEVEL AND BALANCE HERE.

E. STANDARDS.

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(1) LEVELS OF OBLIGATION. BOTH PARTIES NOTED THAT THEY ARE AT A COMPLETE IMPASSE ON THE QUESTION OF LEVELS OF OBLIGATION. WHILE THE EC RECOGNIZES THE U.S. POLITICAL PROBLEMS OF FEDERAL GOVERNMENT PREEMPTION OF STATE AND LOCAL BODIES, EC FEELS AT A GREAT DISADVANTAGE IN THE DOUBLE LEVEL OF OBLIGATION THAT THIS IMPLIES. THE PARTIES NOTED THAT THIS WAS AN ISSUE WHICH WOULD PROBABLY COME UP FOR POLITICAL DECISION.

(2) REGIONAL CERTIFICATION. BOTH SIDES NOTED THAT THEY WERE MAKING SOME PROGRESS IN THIS AREA, AND THAT THEY MAY BE ABLE TO BUILD UPON THE CONCEPTS IN THE NORDIC PROPOSAL.

(3) AGRICULTURAL COVERAGE. BOTH AGREED THAT AGRICULTURE SHOULD BE COVERED IN THE STANDARDS CODE. THEY NOTED THAT THERE WERE TECHNICAL PROBLEMS INVOLVED, AND THAT SOME OTHER COUNTRIES HAD STRONG OPINIONS THAT AGRICULTURE SHOULD NOT BE COVERED.

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F. SUBSIDIES. THE U.S. AND THE EC REVIEWED THE OUTSTANDING MAJOR ISSUES IN THIS AREA: (1) NEW RIGHT TO PROVISIONAL MEASURES, (2) GUIDELINES ON DOMESTIC SUBSIDIES, (3) THE ACTION OF THE PANEL WITHIN RESTRICTIVE TIME LIMITS, AND (4) AGRICULTURAL RULES. THE PARTIES NOTED THAT THERE SEEMED TO BE PROGRESS AT THE NEGOTIATING LEVEL, PARTICULARLY ON THE ISSUE OF PROVISIONAL MEASURES. MCDONALD UNDERLINED THE IMPORTANCE OF GUIDELINES ON DOMESTIC SUBSIDIES, SAYING THESE ARE ABSOLUTELY ESSENTIAL FOR THE U.S. DENMAN ASKED IF THE UNITED STATES COULD ACHIEVE WHAT IT WANTED IN AGRICULTURAL RULES WITHOUT CHANGING ARTICLE XVI. MCDONALD REPLIED THAT WE NEEDED TO BUILD UPON ARTICLE XVI AS IT APPLIES TO AGRICULTURE. HE SAID THAT U.S. OWES THE EC SOME IDEAS ON THIS TOPIC.

5. AGRICULTURE' MCDONALD NOTED THAT THE U.S. WOULD BE ENCOUNTERING HEAVY POLITICAL RESISTANCE ON ENTERING INTO COMMODITY ARRANGEMENTS, PARTICULARLY COARSE GRAINS. HE SAID THESE ARE FAR FROM SELF-BALANCING POLITICALLY; HENCE, THE U.S. WOULD REQUIRE IMPORTANT ACCESS CONCESSIONS FROM THE EC TO BALANCE THE AGRICULTURAL EQUATION. MCDONALD PRESSED FOR PROMPT BILATERALS TO CLARIFY OUR REQUESTS/

OFFERS, AS SOON AS THE EC CAN MAKE PERSONNEL AVAILABLE.

6. DRAFTED BY ROWNY. MCDONALD

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